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Chairperson: Mr. Le Roux (Vice-Chairperson) ..... (South Africa)

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In the absence of Ms. Lintonen (Finland), Mr. Le Roux (South Africa), Vice-Chairperson, took the Chair.

The meeting was called to order at 10.10 a.m.

Agenda item 52: Macroeconomic policy questions

(b) International financial system and development (A/62/119 and A/62/71-E/2007/46)

(c) External debt crisis and development (A/62/151 and A/62/71-E/2007/46)

1. **Mr. Montes** (Chief, Policy Analysis and Development Branch, Department of Economic and Social Affairs) introduced the report of the Secretary-General on the international financial system and development (A/62/119).

2. **Mr. Khalidi** (United Nations Conference on Trade and Development (UNCTAD)) introduced the report of the Secretary-General on recent developments in external debt (A/62/151), which presented a comprehensive analysis of the principal issues and developments relating to external debt, in particular those faced by developing countries.

3. **Mr. Mero** (United Republic of Tanzania) asked to what extent countries were expected to treat local debt differently from external debt.

4. **Mr. Khalidi** (United Nations Conference on Trade and Development (UNCTAD)) said that the report had emphasized that, given adequate capacity to manage public debt strategies, domestic debt could be safer than external debt. However, the exact combination of domestic debt and external debt would depend on the macroeconomic circumstances of each developing country. The report had merely attempted to highlight that the emergence of financial markets in developing countries for development purposes was welcome.

5. **Mr. Bagchi** (India) asked whether the threat of currency mismatches applied mainly to external debt or whether, except in the case of full capital account convertibility, such risks also applied to domestic debt.

6. **Mr. Khalidi** (United Nations Conference on Trade and Development (UNCTAD)) said that domestic debt was generally considered safer because it was associated mainly with maturity mismatches, whereas external debt was associated with both maturity mismatches and currency mismatches.

7. **Mr. Montes** (Chief, Policy Analysis and Development Branch, Department of Economic and Social Affairs) noted that capital account convertibility was an important international issue owing to the interest of foreign investors in purchasing domestic debt and the difficulty experienced by countries with capital accounts in maintaining competitive exchange rates for the purpose of trade.

8. *The Chairperson invited the Committee to engage in a general discussion on the item.*

9. **Mr. Khan** (Pakistan), speaking on behalf of the Group of 77 and China, said that, while the debt relief provided under the Heavily Indebted Poor Countries (HIPC) Initiative and the Multilateral Debt Relief Initiative (MDRI) might have freed resources for development, it was inadequate to enable developing countries to achieve the internationally agreed development goals, including the Millennium Development Goals. Urgent, bolder and more comprehensive initiatives were required to resolve the external debt problems of developing countries in an effective, equitable and developed-oriented manner.

10. Debt relief had been too slow and had not been additional as originally planned; furthermore, it should be expanded to cover countries in need that were not part of the MDRI and HIPC Initiative. It was essential to reconsider the modalities and eligibility criteria for debt relief so as to ensure additionality and support future debt relief for all those who needed it.

11. Additional resources and full implementation of aid commitments were essential to dealing with the debt problems of developing countries in a comprehensive manner. In that connection, the Group of 77 and China was seriously concerned that, despite promises of an additional $50 billion, ODA flows had actually declined and relied heavily on debt cancellation and restructuring. While debt relief could play a role in liberating resources, it should not replace other sources of financing.

12. Debt sustainability should be linked to a country's capacity to achieve its national development goals, including the internationally agreed development goals. Equally crucial was case-by-case flexibility as regards thresholds. Finally, debt scenarios involving external shocks should be considered and debt sustainability analyses should not be based on the use of subjective governance indicators. Long-term debt sustainability could also be ensured through

increased grant-based financing, cancellation of 100 per cent of the official multilateral and bilateral debt of heavily indebted poor countries, and significant debt relief or restructuring for low-income and middle-income countries with an unsustainable debt burden. The efforts of developing countries to maintain debt sustainability would also be greatly facilitated by improved market access for their exports and other measures to enhance their productive capacity.

13. The Group of 77 and China found dubious, as did the Secretary-General in his report, the assertion that new bilateral lenders might be benefiting from the latest round of debt relief without sharing the burden of the cost. The presence of new lenders was generating healthy competition, thus giving recipient countries choices, and enabling them to attract much-needed resources for development in areas where traditional lenders had reservations about lending.

14. Turning to agenda item 52 (b), he said that developing countries were increasingly vulnerable to the actions of developed countries, over which they had little or no control, particularly those involving the development and marketing of innovative and complex financial products. Clearly, there was a need for more stringent regulatory mechanisms and transparency in handling such innovations in developed countries. Hastily conceived initiatives could have devastating implications for developing countries.

15. The rich could not continue to determine the global finance, monetary and trade policies that so significantly impacted on the destinies of billions of people in the poorest countries. While governance reforms might be pursued in the medium to long term, it might also prove necessary to develop measures to address the challenges of a slowed and recession-prone global economy. The Group of 77 and China supported a comprehensive reform of the international financial architecture, including increased voting power for developing countries, in a time-bound manner. The reform efforts should also address financial stability and access to financing for those countries that actually needed it. Current attempts to reform the International Monetary Fund (IMF) addressed only certain aspects of those challenges. Changes in the distribution of voting rights alone would not resolve the fundamental problems of instability and unavailability of liquidity. The international community needed to develop a strategic vision for the comprehensive reform of the international financial and monetary system that supported the objectives of rapid, balanced and sustained growth and development in a globalized economy. Reform must encompass creation of liquidity, including Special Drawing Rights, ODA, debt, FDI and private investment.

16. **Ms. Gomes** (Portugal), speaking on behalf of the European Union, the candidate countries Croatia and the Former Yugoslav Republic of Macedonia, the stabilization and association process countries Albania, Bosnia and Herzegovina, Montenegro and Serbia and, in addition, Armenia, Georgia, Moldova and Ukraine, said that the European Union was actively participating in the Aid for Trade discussion and was hoping to conclude a joint European strategy on Aid for Trade by the end of 2007. The European Union was collectively committed to raising its overall trade-related assistance to 2 billion euros annually by 2010. The economic partnership agreements currently being negotiated with the African, Caribbean and Pacific States were a tangible example of its commitment to linking trade, economic integration and development.

17. The Doha negotiations had made more progress than was realized. The point had been reached where the cost of not reaching an agreement was far greater than the residual cost of not closing the Round.

18. The European Union had undertaken to increase ODA, in line with the Paris Declaration on Aid Effectiveness. Member countries had collectively surpassed the 2005 ODA target of 0.39 per cent of gross national income and remained committed to reaching the target of 0.7 per cent of gross national income by 2015, with an intermediate collective target of 0.56 per cent by 2010. In order to move forward with the implementation of the Paris Declaration, the European Union was promoting improved complementarity among donors.

19. The European Union welcomed innovative sources of financing introduced and supported on a voluntary basis by some member States, especially health initiatives such as the International Finance Facility for Immunization and UNITAID, as well as the Advanced Market Commitments for the development of new vaccines. Some members supported a levy on foreign exchange transactions. Innovative financing mechanisms and solutions should also be explored to finance environmental activities, particularly those related to climate change in developing countries, including the carbon market. Such initiatives, as well

as the role of other providers of technical and financial cooperation, should be considered in accordance with the principles of the Paris Declaration. While remittances were private resources that should not be a substitute for ODA, their potential development impact should not be underestimated or ignored. There continued to be a need to ensure cheaper and safer transfers of remittances.

20. European Union member States had committed additional resources to significant efforts in debt relief. The Union encouraged responsible borrowing and lending and use of the Debt Sustainability Framework by all borrowers and lenders. It welcomed the IMF consultations to address global imbalances, supporting policies to reduce them while sustaining economic growth. That would be done through exchange rate policies and domestic economic policies that fostered domestic stability. The European Union continued to support the governance reform efforts in the World Bank and IMF, including giving developing countries a stronger voice in decision-making. The two main goals were to ensure that the distribution of quotas adequately reflected the member countries' economic weight and role in the global economy and financial system and their ability to contribute financially, and to strengthen the voice of low-income countries in IMF. The European Union remained committed to ensuring the effective participation of developing countries and countries with economies in transition in the international financial institutions.

21. **Mr. Talbot** (Guyana), speaking on behalf of the member States of the Caribbean Community (CARICOM) that were Members of the United Nations, said that prudent macroeconomic policies underpinned the efforts of CARICOM Member States to address some of the peculiar challenges the region faced. The Community had sought to increase economic viability and competitiveness through deeper levels of integration with the establishment of the Caribbean Single Market and Economy (CSME). A coherent, facilitative and supportive international macroeconomic framework was needed to foster the economic performance and general development of the small economies concerned. Incoherence and gross imbalances in the global economy, including the international trade and financial system, adversely impacted CARICOM States and made their development dilemma more acute.

22. Until a balanced and fair outcome was achieved in the Doha Round, the credibility and viability of the international trading system would remain questionable. CARICOM supported the principles of special and differential treatment and attention to the concerns of small economies. The special challenges facing small developing States were particularly apparent in the management of official debt. While some members of CARICOM had benefited from significant debt cancellation, especially through the MDRI and its extension to the Inter-American Development Bank, other members had seen a significant rise in their stock of debt and increasingly more unfavourable rates of borrowing, and still others had seen little or no improvement in their debt-to-GDP ratio. If that situation persisted, particularly in the context of rising interest rates for multilateral and private loans, the debt burden would increase dramatically and impact negatively on the economic growth prospects of CARICOM countries. The international community must focus on examining the severe debt burdens of small vulnerable States characterized as middle-income or lower-middle-income countries.

23. Innovative sources of financing for development should complement and not replace ODA. CARICOM reiterated the call for developed countries to attain the 0.7 per cent target for ODA and to accelerate implementation, including of the Monterrey Consensus. CARICOM looked forward to the Follow-up International Conference on Financing for Development to be held in Qatar in 2008.

24. The CARICOM countries needed greater international support in cases of natural disasters, to which the region was highly vulnerable. They attached importance to the recent establishment of the Caribbean Catastrophe Risk Insurance Facility and hoped that affected countries would be able to access emergency funds upon request.

25. Increased disparities and rising levels of inequality within and between countries and asymmetries in regional integration processes contributed to economic, social and political marginalization and must be overcome in order to achieve equitable and just integration. CARICOM countries had made strenuous efforts to achieve and maintain high standards of living for their people, with increased focus on social inclusion.

26. **Ms. Asmady** (Indonesia), speaking on behalf of the Association of Southeast Asian Nations (ASEAN), said that the High-level Dialogue on Financing for Development should focus on the implementation of the Monterrey Consensus and on new and innovative sources of financing for development. The Philippines and Indonesia had initiated debt-swap schemes as a durable solution to their serious debt problems. ASEAN was aware of the external challenges to the region arising from global imbalances and volatile capital flows. Members had resolved to remain vigilant risks and to maintain sound fiscal and monetary policies while continuing to implement policies that would sustain domestic demand as an anchor of growth.

27. ASEAN had embarked on an ambitious integration process that would culminate in the creation of an ASEAN Economic Community (AEC) by 2015, comprising a single market and production base, a highly competitive economic region, a region of equitable economic development, and a region fully integrated into the global economy. Once AEC countries were integrated into the global economy, market access and production opportunities would not be limited to ASEAN but would also be available to its free trade agreement partners. Free trade agreements were currently being negotiated with China, the Republic of Korea, India, Japan, and Australia and New Zealand.

28. To address volatile financial situations, ASEAN, along with China, Japan and the Republic of Korea (ASEAN + 3), had moved towards short-term currency-swap arrangements under the Chiang Mai Initiative to reduce the region's vulnerability to fluctuations in international capital movements. In addition, the Asian Bond Market Initiative had been launched as a tool for achieving a strong and resilient regional and international financial system.

29. Thanks to the diversity among ASEAN member countries, the region offered many opportunities for tourism and business. Asia was one of the fastest-growing and most dynamic regions in the world. The efforts of ASEAN were bearing fruit, as evidenced in the fact that foreign direct investment in the region had grown by 17 per cent in 2005.

30. **Mr. Ehouzou** (Benin), speaking on behalf of the African Group, said that the institutions, governance and activities of the international financial system had to adjust to new global circumstances, while maintaining a focus on their original mandate. Poverty eradication and achievement of the Millennium Development Goals must be considered a priority by the international community, including the Bretton Woods institutions.

31. Little was being done to reverse the net resource flows from developing to developed countries. Official development assistance had been following a downward trend and nothing had been done to address the limited participation of developing countries in the decision-making processes of key international financial institutions. A comprehensive reform of the international financial architecture was needed to reflect changes in the international situation, with a view to ensuring stability of the global economy and due recognition of the needs of developing countries.

32. It was important to continue debt relief efforts, since many countries continued to devote more resources to repaying their debts than to meeting the basic needs of their people. The achievement of the Millennium Development Goals would require substantial financial flows to developing countries and low-income African countries, provided on concessional conditions in order to prevent debt distress and future indebtedness. Debt repayments made countries less able to invest in education, health and infrastructure and could also jeopardize economic growth. In addition, as external debt had to be repaid in foreign currency, African countries found it increasingly difficult to deal with growing outstanding debt.

33. Debt relief would therefore not be very beneficial as long as poor countries continued to experience difficulty in maintaining debt sustainability. Moreover, relief alone could not guarantee debt sustainability; the latter required strong economic growth, mobilization of natural resources, export diversification and opportunities, and a resulting international climate hospitable to development. African countries needed total cancellation of their debts if they were to achieve the growth necessary to reach the Millennium Development Goals.

34. **Mr. Pataki** (United States of America) welcomed the Secretary-General's report, which made a strong case for renewed efforts to build debt management capacity in developing countries and for greater

transparency and accountability in public debt management.

35. The progress achieved in sub-Saharan Africa provided reason enough not to use the word "crisis" in references to debt relief. However, it was important to solidify the gains made by ensuring that resources available as a result of debt relief were used for poverty reduction and that the lend-and-forgive cycle did not resume. There were opportunities for developing countries to tap resources needed to finance economic development and part of the challenge was building the capacity of those countries to pursue sound macroeconomic policy and to successfully manage debt, particularly in an increasingly complex global financial market. Developing countries must demonstrate commitment to use freed resources for poverty alleviation and economic growth. Otherwise, the HIPC debt relief process would simply lead to wasted resources and threaten donor support for the Initiative. The fact that several eligible countries had not started or completed the HIPC process suggested that further effort was required to build the political will and capacity to manage effectively debt and economic policy. Any delays in that process should not be perceived as creditors' unwillingness to provide debt relief.

36. As part of building capacity and encouraging responsible debt management, traditional and emerging donors and creditors must incorporate debt sustainability into their lending practices. There was a major need for transparency by lenders and borrowers, as well as increased accountability in order to ensure that investments did not begin another cycle of unsustainable debt. Good governance attracted additional investments. The suggestion in the Secretary-General's report that the pursuit of sound economic policies in developing countries was not rewarded was simply unfounded. Clearly, the middle-income countries that had worked hard to improve governance had been able to tap into the private international capital markets as very important sources of development financing.

37. Unconditional and wholesale debt relief or debt restructuring that was not grounded in a debt sustainability framework would only weaken debt markets and reduce access to new credits. Calls for new debt relief facilities for middle-income countries only served to divert attention and resources away from the quest for a lasting solution to the debt problems of those most in need of support. An efficient international capital market required debtors to recognize and honour their repayment obligations. Debtors in arrears who were unable to meet those obligations should pursue economic policies and reforms that opened access to existing facilities for restructuring debt.

38. Meaningful debate on reform of the international financial institutions was already taking place in those bodies where the United States supported an expanded role for developing countries, especially major emerging markets. The Committee's deliberations should not prejudge the outcome of such debate or offer unproductive criticism. Instead, they should focus on debt sustainability. In that connection, the United Nations system had several roles to play. First, it should help build debt management capacity in borrowing countries as well as urge debtor countries to pursue sound economic and debt management policies that would open the door to relief from unsustainable debt. Second, the Organization should, by working with the international financial institutions, promote healthy financial markets so that developing countries might gain access to credits as an important means of mobilizing resources to finance development. It would similarly be important to encourage responsible debt management and lending practices to ensure that debt relief was not wasted but furthered joint efforts to reach internationally agreed goals. Finally, the Organization could help foster the political will among creditors to provide comparable treatment to debtor countries that had already signed sustainable debt relief agreements with the Paris Club and other creditors.

39. **Mr. Alim** (Bangladesh) said that the external debt situation of developing countries, particularly the least developed countries, remained a source of serious concern, as it continued to worsen and was often a hindrance to development financing. Accelerating debt servicing posed a dilemma for the policymakers of developing countries, who had to determine how to use their scarce resources to service their debts and still meet their peoples' basic needs. The current situation thus bore out the failure of past international engagements to yield positive results.

40. The MDRI had benefited some low-income countries and should be extended to all least developed countries immediately. Such efforts must be buttressed by significant development assistance, enhanced investment and full market access with

capacity-building for export diversification. Current debt relief initiatives had been slow and had failed to liberate sufficient resources for the countries concerned.

41. Aid effectiveness had three basic components: a concrete, time-bound commitment to meeting the target contribution of 0.7 per cent of GNP as ODA; high-quality aid; and efficient utilization by recipient countries. In that connection, he looked forward to a comprehensive outcome of the Third High-level Forum on Aid Effectiveness, to be held in Ghana in 2008. The establishment of a permanent mechanism in the United Nations to represent the interests of recipient and donor countries alike deserved further consideration.

42. It was of utmost importance to revitalize the role of the Bretton Woods institutions. Furthermore, the current situation in which developing countries were heavily engaged in self-insurance through the accumulation of significant levels of international reserves, while at the same time borrowing at a very high interest rate to finance their own development, must be reversed. There must be a new system to allow the least developed countries to borrow, at zero interest mark up, against their own reserves.

43. Good governance was essential in the international financial system. Developing countries were seriously underrepresented in the Bretton Woods institutions and a fundamental reform of the institutions' voting system and accounting structures was needed. Doubling of basic votes, as called for by the IMF Board of Governors in 2006, would not affect the distribution of power or change decision-making procedures. Special weighing should be given particularly to the least developed countries in the new quota formula.

44. The importance of multilateral surveillance and policy coordination could not be overstated. Surveillance should focus on system stability and on the spillover impact of the macroeconomic and financial policies of the larger economies on other countries.

45. In searching for a solution to the debt problems of developing countries, the United Nations system should complement the Bretton Woods institutions. The World Bank Group needed to expand its role in supporting fulfilment of the Millennium Development Goals through enhanced delivery of technical assistance and concessional lending. The International Development Association needed to shift to an all-grant facility without conditionality for the least developed countries. Such countries should also enjoy full flexibility in determining their macroeconomic policies.

46. **Ms. Zvereva** (Russian Federation) said that the international financial institutions, particularly the World Bank Group, played an important role in monitoring the international financial system and ensuring its stability. Her delegation hoped that the Committee's debate would shed further light on other important issues, such as multilateral surveillance for the prevention of financial crises, promotion of macroeconomic stability and strengthening of national financial and banking sectors.

47. The Russian Federation had made a significant contribution to the stability of the international financial system, primarily through the early payment of its external debt to IMF and the Paris Club creditors but also through the assistance it had provided to the least developed countries. In fact, her Government had agreed to contribute $43.5 million to an IMF programme providing assistance to poor countries suffering from external shocks and it would also contribute $90 million to the International Development Association over the period from 2003 to 2014.

48. Her country was engaged in targeted efforts to provide development assistance and debt relief for the least developed countries within the framework of the Paris Club and other international organizations. In that connection, it had supported the HIPC Initiative since its inception as one of the most important instruments for mobilizing resources and solving socio-economic problems. Such support also had proven to be important for the practical implementation of the Initiative. The Russian Federation itself had cancelled $11.3 billion of African debt under the HIPC Initiative to date. However, debt cancellation alone would not be effective unless the international community worked together to help developing countries increase their economic effectiveness. Without economic growth in developing countries, all cancelled debt would very soon be replaced by new debt.

49. **Mr. Benfreha** (Algeria) said that the implementation of the development agenda depended on the creation of a global partnership for development, which in turn required better multilateral

surveillance. Proper surveillance was the only way to protect vulnerable economies from financial crises. The establishment of a predictable and non-discriminatory international financial system was essential to the attainment of international development goals and acceptable levels of development. The reform of that system should take account of the concerns of all developing countries. In particular, IMF and the World Bank should improve developing country representation through quota reform.

50. The Bretton Woods institutions and the United Nations should cooperate more closely, particularly in drawing up global strategies to promote development and protect vulnerable economies from the effects of global economic and financial instability. The international financial system could play a key role in mobilizing the external financing needed to promote development and reduce poverty, by promoting international capital flows and encouraging countries to honour their commitments on ODA and debt relief. The interaction between that system and international trade was undeniable.

51. The ever-increasing gap between developing and developed countries was further aggravated by the net transfer of financial resources from the former to the latter. The fact that such transfers had increased — from $533 billion in 2005 to $662 billion in 2006, according to the Secretary-General's report (A/62/119, para. 1) — was a matter of concern.

52. Exchange rate reserves were dictated by the international financial architecture and used primarily to pay off debts, protect against external crises and maintain financial stability. The recent increase in such reserves warranted a proper discussion. Developing countries must be assisted in managing those reserves in such a way that benefited, rather than hampered, their development. At times of crisis, they should also have access to liquidity at a reasonable cost. Even though the external debt situation of some developing countries had improved, debt and indebtedness still weighed heavily on many countries. The United Nations, the international financial institutions and the private sector all had a role to play in providing debt relief to the most indebted countries. Development partners should also honour their commitments.

53. Lastly, the United Nations should continue to focus on the interrelation between the international financial system and development. The implementation of multilateral measures to strengthen coherence between international financial, commercial and monetary governance would complement developing countries' efforts.

54. **Ms. El Midaoui** (Morocco) said that the international community must pay more attention to the stability and development of developing countries and help them become integrated into the global economic and financial system. The concrete measures taken by development partners concerning debt and ODA, while welcome, were insufficient. Neither the commitments made at the Fourth Ministerial Conference of the World Trade Organization (WTO), held in Doha, nor the deadlines established at the Sixth WTO Ministerial Conference, held in Hong Kong, had been met. On the contrary, protectionism and subsidies had increased. Her delegation was concerned and frustrated by the uncertainty hanging over the conclusion of negotiations since the failure of the Group of Four meeting in Potsdam in June. The international community was far from fulfilling its promise to make trade an engine for growth and poverty reduction. In the meantime, ODA continued to decline, and debt stocks and servicing to increase.

55. The adverse effect of external debt on the development efforts of developing countries was further aggravated by falling commodity prices and, therefore, export revenues, rising interest rates, and the fact that external debt must be repaid in foreign currency. Her delegation therefore endorsed the Secretary-General's suggestion (A/62/151, para. 23) that the international financial institutions could switch to a system in which they borrowed and lent in the currencies of their client countries. The debt sustainability framework must not be based solely on the primacy of debt servicing, but must include an evaluation of the requirements for reaching the Millennium Development Goals. In that regard, her delegation supported the Secretary-General's recommendation (A/62/151, para. 35) that debt sustainability should be redefined as the level of debt that allowed a country to achieve the Millennium Development Goals and reach 2015 without an increase in debt ratios and the call by the Commission on Human Rights (ibid.) for the drafting of guidelines for external debt relief programmes to ensure that the need to service foreign debt would not undermine the realization of fundamental economic, social and cultural rights.

56. The international financial system had a direct impact on developing countries' relationships with the international financial institutions, on the one hand, and with developed countries, on the other. Closer linkages between countries and regions would facilitate information and knowledge transfer, increase productivity and improve living standards, but would also transmit shocks and disruptions. In that connection, she welcomed the contribution made by the United Nations Conference on Trade and Development through its Debt Management and Financial Analysis System (DMFAS). As a member of the Group of Eleven Forum of lower-middle-income countries, Morocco welcomed the macroeconomic results achieved in developing countries over the last 20 years and the progress made on developing country participation in the international financial institutions' decision-making processes. Developing countries must be given a say in decisions affecting the international community as a whole and involved in drafting international standards and rules governing the international financial system.

57. As noted in the Secretary-General's report (A/62/151, para. 9), the developing world was lending to the advanced economies. Indeed, net outward financial flows from developing to developed countries had increased from $533 billion in 2005 to $662 billion in 2006. Ever-increasing debt-servicing costs were one reason for the increase, which posed opportunity costs for developing countries, since those resources could have been used to increase domestic investment and accelerate growth. Her delegation therefore endorsed the statement (A/62/151, para. 12) that a reform of the international financial institutions, by giving more voice to developing countries, would increase ownership of the policy prescriptions they advocated.

58. The international financial system must continue to promote sustainable development, sustained economic growth and poverty eradication, while mobilizing sources of financing for development and establishing a multilateral trading system that was open, equitable, regulated, predictable and non-discriminatory.

59. **Ms. Osman** (Sudan) said that the continued improvement in the external debt situation of developing countries as a whole, while welcome, masked the debt problems of individual countries or groups of countries, particularly those not participating in the HIPC Initiative or the MDRI. That situation perpetuated the vicious circle of poverty and aid-dependency, and obstructed the successful implementation of national development strategies and plans and the achievement of the internationally agreed development goals, including the Millennium Development Goals.

60. The Sudan struggled with a set of complex and unique challenges. At the end of 2006, its external debt had stood at over $27 billion in nominal terms, which was equivalent to approximately 55 per cent of GDP and 340 per cent of exports and represented an increase of about $9 billion since the end of 2000. About two thirds of that increase was due to a further build-up of arrears to Paris Club and non-Paris Club creditors. All indicators showed that the Sudan's external debt was indeed unsustainable. The Sudan's debt burden threatened macroeconomic stability and growth and hampered its efforts to eradicate poverty, achieve the Millennium Development Goals, attain social cohesion, meet its obligations under the peace agreements it had signed, and foster reconstruction and rehabilitation. Shortfalls or delays in donor assistance and oil price-related external shocks would make it difficult for her Government to meet its obligations. Debt had forced the Sudan to rely on non-concessional facilities to finance programmes aimed at addressing regional development disparities, particularly in the area of infrastructure projects.

61. Her Government had implemented a wide range of economic, social and political reforms, including trade liberalization, privatization and banking reforms. By controlling expenditure and increasing revenue generation, it had reduced inflation from 130 per cent in 1996 to a single digit figure in 2006. The GDP growth rate, meanwhile, had increased from 6 per cent in 1997 to over 10 per cent in 2006. In addition, an External Debt Unit had been established within the Central Bank of the Sudan. It was responsible for improving governance, transparency and accountability and was making a contribution to macroeconomic management, in particular by crafting an overall debt management strategy.

62. Despite such policies, however — and at a time when it faced enormous challenges — the Sudan had not benefited from any debt relief initiatives, which remained hostage to political conditionality. She called for flexibility in that regard and urged donors to address the situation, particularly in the case of countries meeting debt relief criteria.

63. **Mr. Zainal Abidin** (Malaysia) said that, when reading the reports before the Committee, he had been struck by the uneven progress towards meeting agreed targets, the ongoing global inertia, and the extent to which the international community simply repeated platitudes. He welcomed the significant increase in ODA since the adoption of the Monterrey Consensus; the promises of additional, time-bound commitments, particularly by the European Union; and the fact that some States members of the Development Assistance Committee of the Organization for Economic Cooperation and Development (OECD) had met or exceeded the 0.7 per cent target. It was a matter of concern, however, that much of the increase in ODA since 2002 was accounted for by debt relief and technical and humanitarian assistance; that the resources released for development were much smaller than those indicated by aid statistics; that development aid from OECD countries had fallen by 5.1 per cent in constant dollars in 2006 compared to 2005; and that, even if ODA reached 0.36 per cent of GNI in 2010, it would still be far below the 0.7 per cent target. The key question was whether ODA actually promoted development.

64. Crises had come and gone, but the international financial system remained unchanged. Some progress had been made in 2006 on reviewing the IMF quotas of those countries whose quotas were least reflective of their economic significance. He stressed the importance of moving forward on reform and the need for a clear political commitment, particularly from advanced member States, to making significant progress in the second stage, in order to assure members which had incurred a down payment by having their quota shares further eroded by the stage one ad hoc increase that quota reform would be a credible and meaningful exercise and that they would benefit from a broader and more comprehensive reform in the second stage.

65. As a result of the first stage of the reform, Malaysia's quota had been reduced from 0.7 to 0.68 per cent, even though IMF calculations showed that, based on traditional quota formulae, it should increase to 1.4 per cent. The lack of progress in the second stage was, therefore, a matter of concern, particularly since quota formula discussions were due to end in spring 2008.

66. The broader issue, of which voice and participation was but a small part, concerned the future legitimacy, credibility and relevance of IMF. The fact that many developing countries had repaid most or all of their loans and were wary of taking out new ones demonstrated the extent of their unhappiness with the Fund's heavy-handed ways. Experience had shown that developing countries stomached austerity measures better than developed countries did. Malaysia, for example, had reduced its budget deficit from over 5 per cent in 2000 to around 3 per cent today. Developing countries had problems not with austerity per se, but rather with being forced to embrace needless austerity based on an ideological, rather than a pragmatic and realistic, perception of the world. To remain legitimate, credible and relevant, IMF must return to its original mandate, rely more on the power of analysis and persuasion and cease to be an instrument of the rich and powerful.

67. Increasing instability in the international economic system seriously hampered developing countries' efforts to achieve sustained economic growth and improve the welfare of their people. Nowhere was that more pronounced than in the sphere of international finance. Just a few months previously, the same innovative financial instruments that had enabled those who were not creditworthy to borrow and risks to be spread more evenly among financial institutions worldwide had also ensured that the contagion had spread further once reality had set in. Scapegoats included the Chairman of the Board of Governors of the Federal Reserve System and rating companies. As in the wake of the Asian financial crisis, when the rating agencies had also been blamed, nothing had been done. That was because the present system amplified greed. In that connection, it was noteworthy that, while the rest of the retail sector in the United States had suffered, luxury goods companies still enjoyed brisk sales and robust growth, indicating the widening gap between the haves and the have-nots.

68. Developing countries must adopt solid and sometimes unconventional macroeconomic policies if they were to survive and prosper. They had been criticized for building up their foreign reserves as a contingency against international financial crises. It had been said that China's current account surplus alone was extracting demand from the rest of the world to the tune of 0.75 per cent of the latter's aggregate GDP. Developing countries had been advised to strike the right balance between the possible increases in intermediation costs of such a policy, on the one hand,

and the cost of a future system-wide crisis, on the other. However, that was not easy, since the activities most likely to cause system-wide crises were unlikely to come from economic actors based in the developing world. The development of increasingly exotic financial instruments made it difficult to predict the extent of future crises and there was no other fallback position that took account of the need to protect the welfare of their citizens. His Government would continue to build on macroeconomic policies that had served it well in the past, while adjusting them to suit contemporary reality. As a result, growth was projected at between 6 and 6.5 per cent in 2008. Moreover, with private investment and private consumption expected to reach 9.5 per cent and 7.9 per cent respectively, per capita income was expected to increase by 6.8 per cent. Malaysia would also continue to have large financial reserves.

69. The turbulence surrounding the international financial system had made it increasingly difficult for developing countries to achieve their development goals. International financial system reform must proceed apace, centred on the development aspirations of the world's poor.

70. **Mr. Muburi-Muita** (Kenya) said that the continued increase in resource outflows from developing to developed countries was worrying, as it undermined the former's development prospects. Such outflows, while important perhaps in addressing current account imbalances, pointed to shortcomings needing to be addressed. A lack of resources could not be cited as a critical factor in developing countries' development endeavours when those same countries kept significant resources in developed countries. The failure to address that situation was an indication of the international financial system's weakness in finding ways of retaining such resources to foster development in poor countries. Debt relief did not provide any new, meaningful resources for development and could not, therefore, be considered as ODA. If the trend continued, developing countries were unlikely to achieve the internationally agreed development goals, including the Millennium Development Goals.

71. International financial architecture reform had been slow and particularly punitive to developing countries, whose level of participation in the key financial institutions' decision-making processes did not reflect their large number or their influence in global systems. Developing country voice, participation and representation in IMF and World Bank decision-making needed to be addressed, and regional financial mechanisms strengthened, in order to enhance cooperation and self-reliance.

72. The Paris Declaration on Aid Effectiveness had not been fully incorporated into IMF and World Bank disbursement structures, particularly those relating to the financing of programmes in Africa. Moreover, ODA disbursement was increasingly being made conditional on governance and political reform. Even though many African countries had made significant progress in that regard, different standards were being applied when formulating conditionalities for countries in similar situations in other parts of the world.

73. According to the Secretary-General's report (A/62/151), the external debt of developing countries had increased in nominal value in 2006, from $2,742 billion to $2,851 billion. That increase, coupled with the increase in net resource outflows from developing to developed countries, posed a real threat to the former's development potential and, if left unchecked, would lead to greater global financial and development imbalances. Debt relief initiatives such as the MDRI and the HIPC Initiative were inadequate, inter alia because they did not address heavily indebted developing countries such as his own that were not considered "poor". Country classification and debt sustainability criteria must be reviewed to guarantee fairness and ensure that a real impact was made in the countries concerned. The evolving trend of considering debt relief to be ODA must be reviewed, as it defied traditional knowledge about two important but different aspects of international finance and cooperation. The real solution to the developing countries' debt problem, however, was 100 per cent debt cancellation.

The meeting rose at 12.45 p.m.